MILITARY RETIREMENT PAY PLANS

PLAN	APPLIES TO	PROVISIONS
Final Pay Plan	Those who entered service prior to September 8, 1980	After 20 years of service retirees get 50% of their basic pay on the day they retire, plus 2.5% for every additional year beyond 20, up to a maximum of 75% of basic pay.
High Three Plan	Those who entered the military between September 8, 1980, and July 31, 1986	After 20 years of service retirees get 50% of basic pay on the day they retire, plus 2.5% for every additional year beyond 20, up to a maximum of 75% of basic pay. The retired pay is figured on the average basic pay during the service member's last 36 months of service.
Bonus Plan (Replaces Redux Plan)	Those who entered the military on or after August 1, 1986	Service members will choose, on their 15th anniversary of military service, between two plans: a. Retired pay calculated at 50% of basic pay for the first 20 years of service, plus 2.5% for each additional year up to a maximum of 75% of basic pay, OR b. A $30,000 cash payment at the 15th year of service and reduced benefits after 20 years of 40% of basic pay, with 3.5% added for each additional year up to a maximum of 75% of basic pay. (Promise to stay until retirement is a condition of receiving the cash payment.) Those who select this option will receive a reduced cost-of-living raise each year (1 % less per year than other plans.)

BALLPARK ESTIMATE

Planning for retirement is not a one-size-fits-all exercise. The purpose of Ballpark is simply to give you a basic idea of the savings you'll need when you retire. *So let's play ball!*

If you are married, you and your spouse should each fill out your own Ballpark Estimate worksheet taking your marital status into account when entering your Social Security benefit in number 2 below.

1. How much annual income will you want in retirement? (Figure 70% of your current annual gross income just to maintain your current standard of living. Really.) $_______________

2. Subtract the income you expect to receive annually from:

   Social Security - If you make under $25,000, enter $8,000; between $25,000-$40,000, enter $12,000; over $40,000, enter $14,500 (or married couples - the lower earning spouse should enter either their own benefit based on their income or 50% of the higher earning spouse's benefit, whichever is higher) -$_______________

   Traditional Employer Pension - a plan that pays a set dollar amount for life, where the dollar amount depends on salary and years of service (in today's dollars) -$_______________

   Part-time income -$_______________

   Other -$_______________

   This is how much you need to make up for each retirement year: =$_______________

   Now you want a ballpark estimate of how much money you'll need in the bank the day you retire. So the accountants went to work on the formula. For the record, they figure you'll realize a constant real rate return of 3% after inflation. you'll live to age 87, and you'll begin to receive income from Social Security at age 65.

3. To determine the amount you'll need to save, multiply the amount you need to make up by the factor below. $_______________

Age you expect to retire:	Your factor is:
55	21.0
60	18.9
65	16.4
70	13.6

4. If you expect to retire before age 65, multiply your Social Security benefit from line 2 by the factor below. $_______________

Age you expect to retire:	Your factor is:
55	8.8
60	4.7

5. Multiply your savings to date by the factor below (include money accumulated in a 401(k), IRA, or similar retirement plan). -$_______________

If you want to retire in:	Your factor is:
10 years	1.3
15 years	1.6
20 years	1.8
25 years	2.1
30 years	2.4
35 years	2.8
40 years	3.3

Total additional savings needed at retirement: =$_______________

Don't panic. Those same accountants devised another formula to show you how much to save each year in order to reach your goal amount. They factor in compounding. That's where your money not only makes interest, your interest starts making interest as well.

6. To determine the ANNUAL amount you'll need to save, multiply the TOTAL amount by the factor below. =$_______________

If you want to retire in:	Your factor is:
10 years	.085
15 years	.052
20 years	.036
25 years	.027
30 years	.020
35 years	.016
40 years	.013

See? It's not impossible or even particularly painful. It just takes planning. And the sooner you start, the better off you'll be.

Uniformed Services Participation in The Thrift Savings Plan

On October 30, 2000, President Clinton signed the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 (Public Law 106-398). One provision of the law extended participation in the Thrift Savings Plan (TSP) for Federal civilian employees to members of the uniformed services. The following questions and answers explain the basic rules governing TSP participation by uniformed services members, provide information about the implementation of this benefit, and discuss the administration of the TSP, including the role of the Federal Retirement Thrift Investment Board. Additional materials will be issued during the late summer of 2001, in preparation for the first uniformed services open season, which begins October 9, 2001.

1. What is the Thrift Savings Plan (TSP)?

The Thrift Savings Plan (TSP) is a retirement savings and investment plan that has been available to civilian employees of the Federal Government since 1987. The National Defense Authorization Act for Fiscal Year 2000 (Public Law 106–65), as amended by the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 (Public Law 106-398), extended the opportunity to participate in the TSP to members of the uniformed services.

The purpose of the TSP is to provide retirement income. It offers participants the same type of savings and tax benefits that many private corporations offer their employees under so-called "401(k) plans."
The TSP allows participants to save a portion of their pay in a special retirement account administered by the Federal Retirement Thrift Investment Board. The money that participants invest in the TSP comes from pre-tax dollars and reduces their current taxable income; investments and earnings are not taxed until they are withdrawn.

2. What are the differences in TSP participation for the uniformed services?

Generally, uniformed services members will participate under the same rules and receive the same benefits as civilian TSP participants. However, the contribution rules are different for uniformed services members, and the TSP record keeper must therefore maintain separate data bases for civilian and uniformed services participants' accounts. Consequently, two separate accounts will be maintained for participants who are both Federal civilian employees and uniformed services members (i.e., reservists).

3. How does the TSP differ from the Military Retirement System?

Participation in the TSP is optional and not automatic. You must sign up with your service to participate in the TSP. You contribute to the TSP from your own pay on a pre-tax basis, and the amount you contribute and the earnings attributable to your contributions belong to you. They are yours to keep even if you do not serve the 20 years ordinarily necessary to receive military retired pay.
Military retired pay is a defined benefit program. This means that the benefit you receive from the military retirement system is based on your years of service and the rank you hold at the time of your retirement, rather than on the amount of your contributions and earnings.
The TSP, on the other hand, is a defined contribution plan. The balance in your TSP account will depend on how much you have contributed to your account during your working years and the earnings on those contributions.

4. Who can contribute to the TSP as members of the uniformed services?

Uniformed members of the Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration serving on active duty and members of the Ready Reserve or National Guard of those services (as applicable) in any pay status can contribute to the TSP.

5. Can uniformed services retirees contribute to the TSP?

Uniformed services retirees cannot contribute to the TSP. The TSP is designed to allow active duty members and members of the Ready Reserve or National Guard to save a part of their military pay for retirement in a plan that offers pre-tax savings, tax-deferred investment earnings, and low administrative and investment expenses. Therefore, only pay for active service (e.g., basic pay, incentive pay, special pay, and bonuses) can be contributed to the TSP.

6. When will I be able to join the TSP?

Uniformed services members will be able to enroll in the TSP beginning on October 9, 2001. This time frame ensures that the Federal Retirement Thrift Investment Board, the Department of Defense, your service, and other agencies involved will be able to provide timely and effective support to the nearly 2.5 million members of the uniformed services who will be eligible to enroll in the TSP.

Members will be able to sign up to participate in the TSP during a special 60-day enrollment period, known as an open season, beginning on October 9, 2001, and ending on December 8, 2001. Contributions to the TSP based on the sign-up will begin to be deducted from paychecks the first week of January 2002.

Members who do not enroll during the special open season will have two "open seasons" per year to enroll thereafter. (Open seasons are currently May 15 through July 31 and November 15 through January 31.) New members of the uniformed services will have 60 days after joining the service to enroll in the TSP; thereafter, they may enroll during the semiannual open seasons.

7. What if I have two accounts (civilian and uniformed services)?

If you have both a civilian TSP account and a uniformed services TSP account, they will be treated separately for most purposes. This means, for example, that if you want to move your money among investment funds, you must submit two interfund transfer requests, one for each account. However, the accounts will be combined for the Internal Revenue Code's elective deferral limit on contributions and in determining the amount you are eligible to borrow from the TSP. (See "How much can I contribute?" and Can I withdraw or borrow from my account before I separate from the uniformed services?")

8. How much can I contribute?

In 2002, you can contribute up to 7 percent of the basic pay you earn each month. You may also be able to contribute all or any whole percentage of any special or incentive pay (including reenlistment or other bonuses) you receive. However, the total amount you contribute each year cannot exceed the Internal Revenue Code's elective deferral limit (26 U.S.C. § 402(g)) for that year (for 2001, the limit is $10,500; it is recalculated each year and may be higher in 2002). If you are a member of the Ready Reserve or National Guard and have a civilian TSP account (or another qualified employer plan described under sections 401(k), 403(b), or 408(k) of the Internal Revenue Code), the total of all your contributions to all of your plans cannot exceed the Internal Revenue Code's elective deferral limit. If you also participate in a Section 457 plan, a special limit applies--your contributions to all plans are limited to $8,500 in 2001. You should consult with your private-sector plan administrator concerning any limitation on the amount you can contribute to your TSP account. In addition, your contributions are subject to another Internal Revenue Code section (26 U.S.C. § 415(c)) which limits your contributions to the TSP and other qualified plans to $35,000, or 25 percent of your uniformed services compensation, whichever is less. If you are a reservist and a Federal civilian employee, the 25 percent limitation applies to your combined reservist and civilian compensation.

9. Do I have to be contributing from my basic pay to contribute from my special pay, incentive pay, or bonuses?

To contribute from special pay, incentive pay, or bonuses, you must be contributing from basic pay. Therefore, if you are a current uniformed services member and do not elect to contribute during the initial open season, you can only join the TSP during a subsequent semiannual open season. Consequently, if you anticipate receiving a large bonus (such as a reenlistment bonus) and want to contribute all or part of it to the TSP, you must start your contributions from basic pay before receiving the bonus.

10. What if all or part of my pay is subject to the combat zone exclusion?

If you serve in a combat zone, special rules apply. Because all or a part of pay earned during a month you serve in a combat zone is tax exempt, you do not receive the benefit of tax deferral when you contribute it to the TSP. As a consequence, contributions from tax-exempt pay are not subject to the Internal Revenue Code's elective deferral limit. (However, these contributions do count against the Internal Revenue Code's section 415(c) limits.) Regardless of the tax treatment of your pay, you still cannot contribute more than 7 percent (for 2002) of your basic pay each month. Also, although contributions from pay subject to the combat zone tax exclusion will not be taxable to you when withdrawn, any earnings attributable to those contributions will be taxable at that time.

11. Do I contribute money monthly or annually?

Your payroll office will deduct your contributions from your pay each month based on your election and will remit these contributions to the TSP. You cannot send a check to the TSP; once you have received your pay, you cannot contribute any of it to the TSP. If you want to contribute all or part of a bonus to your uniformed services TSP account, that contribution must be deducted by your payroll office and remitted to the TSP at the time the bonus is paid to you.

12. Will the Department of Defense match my contributions?

The law allows the secretaries of the military services (i.e., Army, Navy, Air Force) to designate critical military specialties for matching contributions. Members serving in these specialties who agree to serve for six years will be eligible for matching contributions. The matching contributions apply only to amounts you contribute from your basic pay. Your service can tell you whether your specialty has been designated as critical and whether you are eligible to contract to receive matching contributions. Matching contributions and their attributable earnings will be taxable to you when you withdraw them from the TSP.

13. Can I contribute to an Individual Retirement Account and the Thrift Savings Plan in the same year?

Yes. Participation in the TSP does not affect your ability to contribute to an IRA. However, because you are a uniformed services member covered by the uniformed services retirement plan, your ability to make tax-deductible contributions to an IRA depends upon your income and that of your spouse. Your IRA provider or your tax advisor can give you specific information about the different types of IRAs, the rules affecting each type, and how they apply to your situation. You can also obtain a copy of IRS Publication 590, Individual Retirement Arrangements (IRAs).

14. How are my contributions invested?

You can invest any portion of your TSP account in the five TSP investment funds:

- Government Securities Investment (G) Fund
- Fixed Income Index Investment (F) Fund
- Common Stock Index Investment (C) Fund
- Small Capitalization Stock Index Investment Fund (S) Fund (available in May 2001)
- International Stock Index Investment Fund (I) Fund (available in May 2001)

As a new participant, the TSP will invest your contributions in the G Fund until you submit a contribution allocation to the TSP record keeper. Once your TSP account is established (i.e., upon receipt of your first contribution), the TSP will send you an introductory letter and a Personal Identification Number (PIN). After you receive your PIN, you will be able to make a contribution allocation to invest your future contributions in any of the five investment funds using the TSP Web site, www.tsp.gov, or the ThriftLine (504-255-8777). Because the Web site and the ThriftLine are the most efficient ways to make investment requests, we encourage participants to use them to make these requests. You may also make allocation requests by mailing an Investment Allocation Form (TSP-U-50) to the TSP Service Office.

15. How do I change the investment of my existing account balance?

To change the investment of your existing account balance, you must request an interfund transfer. The interfund transfer will move some or all of your existing balance among the five funds. An interfund transfer is different from a contribution allocation because the interfund transfer involves only money that is already in your account. It does not change the way future contributions will be allocated to the five funds. Once your account is established, you will be able to request an interfund transfer on the TSP Web site or the ThriftLine. Because the TSP Web site, www.tsp.gov, and the ThriftLine (504-255-8777) are the most efficient means to make investment requests, we encourage participants to use them to make these requests. You may also make interfund transfer requests by mailing an Investment Allocation Form (TSP-U-50) to the TSP

Service Office. Requests must be received by the TSP record keeper by the 15th of each month (or the next business day if the 15th is a Saturday, Sunday, or holiday) in order for the request to become effective at the end of that month.

16. Can I withdraw or borrow from my account before I separate from the uniformed services?
The TSP is a long-term retirement savings plan that provides special tax advantages. Limitations on withdrawals help ensure that retirement savings will be used for the intended purpose. Therefore, uniformed services TSP participants (whether in active service or members of the Ready Reserve or National Guard) can withdraw funds from their accounts in only two cases:

- Age-based in-service withdrawals for participants who are 59½ or older.
- Financial hardship in-service withdrawals for participants who can document financial hardship.

The criteria that must be met to receive an in-service withdrawal are explained in the booklet "TSP In-Service Withdrawals." When you take an in-service withdrawal, you cannot return or repay the money you remove from your account, so you permanently deplete your retirement savings and future earnings on the amount withdrawn. In addition, any contributions you are making to the TSP will be automatically terminated for six months after each financial hardship withdrawal. Thus, before taking an in-service withdrawal, you should evaluate your options to see if a TSP loan would be more beneficial.
The TSP loan program allows you to borrow your own contributions and attributable earnings from your account for a general purpose loan or for a loan to purchase your primary residence. The minimum loan amount is $1,000. The maximum loan amount is $50,000; however, the amount you can borrow may be less depending on any outstanding TSP loans you have already taken and certain limits set by the Internal Revenue Code. (If you have both a uniformed services and a civilian TSP account, your account balances will be combined for purposes of determining the maximum amount you may borrow from either account.) You also pay interest on the amount borrowed. The loan repayment, including interest, will go into your TSP account. Because the TSP is a retirement plan, you may be better served if you can avoid borrowing or taking in-service withdrawals from your TSP account and you continue to allow your contributions to accumulate earnings.

17. What are my withdrawal options once I separate from the uniformed services?
When you separate from the uniformed services, you may:

- Receive a single payment. All or a portion of your account can be transferred to an Individual Retirement Account (IRA) or other eligible retirement plan (e.g., a 401(k) plan or your civilian TSP account)**;

- Request a series of monthly payments based on a dollar amount, a number of months, or your life expectancy. All or a portion of certain monthly payments can be transferred to an IRA or other eligible retirement plan;

- Request a TSP annuity. You must have at least $3,500 in your account in order to purchase an annuity;

- Leave your money in the TSP. You may leave your money in the TSP, where it will continue to accrue earnings. Although you will not be able to continue to make contributions, you will be able to continue to make interfund transfers. You must begin withdrawing your account no later than April 1 of the year following the year you turn age 70½ and are separated from service.

** Tax-exempt contributions to the TSP are not eligible for transfer to an IRA or other eligible retirement plan. These contributions will be paid directly to you. Earnings attributable to the tax-exempt contributions, however, are eligible for transfer to an IRA or other eligible retirement plan.

18. When can I withdraw my money from the TSP without penalty?
While you are a member of the uniformed services, any tax-deferred money you withdraw before age 59½ as a financial hardship in-service withdrawal is subject to the IRS 10% early withdrawal penalty, as well as

regular income tax. With respect to post-separation withdrawals, if you separate from service during or after the year in which you turn age 55, your withdrawals are not subject to the early withdrawal penalty. If you separate before the year you reach age 55, you can transfer your TSP account to an IRA or other eligible retirement plan (e.g., 401(k) plan, your civilian TSP account) or begin receiving annuity payments without penalty.

19. Does my spouse have any rights with respect to my TSP account?

Members of the uniformed services are subject to the same spousal rights rules as are civilian FERS participants. This means that your spouse must consent, in writing, to all loans and in-service withdrawals. In addition, if you make a post-separation withdrawal, your spouse has a right to a specified form of joint annuity (i.e., no cash refund, 50% survivor benefit, level payments). If you do not want this type of annuity, your spouse must waive his or her right to it in writing.

20. Who administers the TSP?

The Federal Retirement Thrift Investment Board administers the TSP. Your service and your payroll office (e.g., the Defense Finance and Accounting Service) also play an important role in enrolling you in the TSP, establishing your account, and transmitting your personal information (e.g., name, address) and contributions to the record keeper. The TSP record keeper is the National Finance Center (NFC) of the U.S. Department of Agriculture, which serves in that capacity under contract with the Board.

The Board. The Federal Retirement Thrift Investment Board is an independent Government agency. The five members of the Board and the Executive Director are statutory fiduciaries and, as such, are required by law to manage the TSP prudently and solely in the interest of participants and their beneficiaries. Investments in the TSP and earnings on those investments cannot be used for any purpose other than providing benefits to participants and their beneficiaries and paying TSP administrative expenses.

The financial statements of the Thrift Savings Fund are required by law to be audited annually by an independent public accounting firm.

Your Service. While you are employed, your service is your primary TSP contact. Your service will provide you with TSP forms and informational materials and answer your questions about the TSP. You will submit the Election Form (TSP-U-1) to your service to enroll in the TSP. Your service's payroll office will report to the record keeper the dollar amount of contributions to your account each pay period.

You should review the leave and earnings statement (LES) that you receive each month and your semiannual TSP participant statements to ensure that your service provides the TSP record keeper with correct and up-to-date information about you and your contributions. As long as you are a member of the uniformed services, your service must also provide the record keeper with the personal information that is necessary to maintain your account (e.g., your address). If you have questions about your TSP account or if your personal information is incorrect, contact the office in your service that is responsible for administering the TSP. Your service is responsible for correcting errors in your personal information and contribution (and loan payment) amounts.

The Record Keeper. The Board has a contract with the NFC in New Orleans, Louisiana, to provide record keeping services for the TSP. NFC maintains the accounts of TSP participants, including those for members of the uniformed services, and mails out semiannual participant statements to all TSP participants.

The TSP Service Office at NFC processes contribution allocations, loans, withdrawals, and interfund transfers, as well as participants' designations of beneficiaries. The TSP Service Office is also your primary contact for information about your account after you separate from the uniformed services.